

ANNUAL TABLED BUDGET

2020/21 MTREF

31 March 2020

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PART 1: ANNUAL BUDGET

1. Section 1: Mayor's budget speech

The Mayor's budget speech for the 2020/21 Medium Term Budget and Expenditure Framework (MTREF) will be submitted to Council on 28 May 2020, after the public participation process has been completed, and when the annual budget is considered by Council for approval.

2. Section 2: Resolutions

It is recommended –

1. That Council approves the annual tabled budget of the municipality for the financial year 2020/21 and the two outer years 2021/22 and 2022/23 as per **Annexure A** (Budget schedules A1 to A10 and SA1 to SA 37), **Annexure B** (capital budget per department), **Annexure C** (capital budget per ward) and **Annexure D** (summaries of the capital budget);
2. That Council approves the tabled rates and tariffs as contained in **Annexure E** for the 2020/21 budget year;
3. That Council takes note that the electricity tariffs as included in **Annexure E** has not yet been approved by NERSA and will only be considered later by NERSA;
4. That Council takes note of the sensitivity analysis of the proposed rates and tariff increases for consumers as per **Annexure F**;
5. That Council takes note of MFMA Budget Circular 99 attached as **Annexure G**;
6. That Council takes note of the quality certificate signed by the Municipal Manager as per **Annexure H**;
7. That Council take note of the proposed changes to the budget related policies attached in **Annexure I**, which will be discussed during a workshop with Council on 30 April 2020, and again re-submitted to Council on 28 May 2020 for final consideration;
8. That the tabled service standards attached as **Annexure J** be approved;

9. That Council take note of the sector department projects of the Western Cape Provincial Government in Saldanha Bay municipality for the 3 year 2020/21 MTEF, attached as **Annexure K**;
10. That the draft Top Layer SDBIP, attached as **Annexure L** be approved;
11. That Council take note of the list of projects funded from external loans, attached as **Annexure M**;
12. That the 2020/21 MTREF Procurement Plan per **Annexure N** be approved;
13. That Council take note of the 10-year Long Term Financial Plan attached as **Annexure O** which will be workshopped with Council on 30 April 2020;
14. That Council takes note that version 6.4.1 of the mSCOA classification framework was used to prepare the budget;
15. That the pre-paid monthly capacity fee for 40 Ampere and 60 Ampere connections be further phased-in, and that the charge for 2020/21 be R105 and R150 (Vat exclusive) respectively;
16. That Council takes note the Annexure A and O is per separate addendum to this agenda item.

3. Section 3: Executive summary

3.1 Introduction

The start of 2020 began with the news of the coronavirus, or COVID-19, which was declared a global pandemic by the World Health Organisation on 11 March 2020. A pandemic is commonly defined as the worldwide spread of a new disease.

This virus created much panic in the global economy with fears of a global recession. A recession generally occurs when there are two successive quarters of a decline in the gross domestic product (GDP) of a country.

On 3 March 2020 Stats SA reported that South Africa in the 4th quarter of 2019 contracted 1.4%. In the 3rd quarter of 2019 the South African economy also contracted 0.8%. In 2019 the economy growth in South Africa was therefore only 0.2%.

Stats SA also indicated that 7 out of the 10 industries that make up the South African GDP figure contracted in the last quarter of 2019.

The coronavirus is bound to have an impact on Chinese demand for South African commodities such as iron ore, coal and others. It will also affect other South African exports to China and other countries, such as agricultural goods.

South Africa's economy needs all the help it can get right now, and there is almost nothing out there that could plausibly give it a boost. Things are bad when the success of the 2020/21 national budget are depended on the proposed R160 billion cut to public sector wages over the next 3 years.

The impact of the ESKOM load shedding is bound to continue with the next 3 – 5 years, mostly due to critical planned and unplanned maintenance. It is predicted by electricity industry specialists that there will be phase 6 load shedding in 2021.

The objective for the municipality during the budget planning process was to keep rates and tariffs as low as possible for its residents in this uncertain economic environment.

3.2 2020/21 National budget

The Minister of Finance, Mr. Tito Mboweni delivered a moderate budget with no surprises, apart the news of the proposed R160 billion cut of public sector wages. Some of the highlights in his budget speech of 26 February 2020 is provided below:

"Against this backdrop we forecast that the South African economy will grow by 0.9% and inflation will average 4.5% in 2020".

"Persistent electricity problems will, however, hold back growth. Over the next three years, we expect growth to average just over 1 per cent".

"For 2020/21, Revenue is projected to be R1.58 trillion, or 29.2% of GDP. Expenditure is projected at R1.95 trillion, or 36% of GDP. This means a consolidated budget deficit of R370.5 billion, or 6.8% of GDP in 2020/21".

"Total consolidated government spending is expected to grow at an average annual rate of 5.1%, from R1.95 trillion in 2020/21 to R2.14 trillion in 2022/23. This is mainly due to mounting debt-service costs".

"Government will do "whatever it takes" to ensure a stable electricity supply. As I said, it is our number one task. We have allocated R230 billion over ten years to achieve the restructuring of the electricity sector".

"It will shortly be possible for municipalities in financially good standing to purchase electricity from independent power producers".

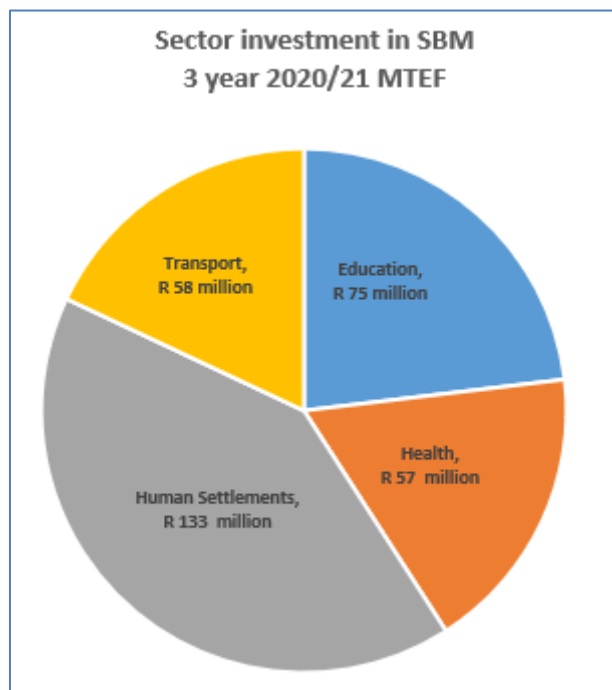
"Gross national debt is projected to be R3.56 trillion, or 65.6% of GDP by the end of 2020/21".

3.3 2020/21 Western Cape Provincial budget

Minister David Maynier delivered the Western Cape Provincial Government budget on 10 March 2020.

The Western Cape Provincial Government will over the next 3 years invest capital projects to the value of R322 million in the Saldanha Bay municipal area (see graph below). A list of the individual projects is included in **Annexure K**.

Figure 1: Western Cape sector investment in Saldanha Bay municipality



3.4 2020/21 Saldanha Bay Municipal budget

The third review of the fourth generation Integrated Development Plan (IDP) will also be considered by Council on 31 March 2020 and is included in a separate agenda item. A high-level summary of the 2020/21 MTREF budget is provided in the table below:

Table 1: High level summary of the 2020/21 MTREF

	2019/20 Adjustment budget R	2020/21 Budget R	2021/22 Budget R	2022/23 Budget R
Operating Revenue	1,032,825,351	1,079,707,459	1,163,246,940	1,253,200,650
Grants	162,105,711	177,065,999	176,798,999	189,546,002
Total Revenue	<u>1,194,931,062</u>	<u>1,256,773,458</u>	<u>1,340,045,939</u>	<u>1,442,746,652</u>
Capital expenditure	306,558,318	260,197,540	197,163,363	159,162,149
Operating expenditure	1,205,084,699	1,264,781,614	1,367,230,546	1,449,947,394
Total expenditure	<u>1,511,643,017</u>	<u>1,524,979,154</u>	<u>1,564,393,909</u>	<u>1,609,109,543</u>

3.5 Municipal Regulations on a Standard Chart of Accounts (mSCOA)

The municipality has prepared its budget and A schedules on version 6.4.1 of the mSCOA classification framework.

3.6 2018/19 Electricity tariffs restructuring

The municipality has restructured its electricity tariffs during the 2018/19 financial year. A fixed monthly capacity charge, *inter alia*, was included in the tariff during.

To reduce the impact on the pre-paid electricity consumers Council decided in 2018 to phase the fixed monthly capacity charge for 40 Ampere and 60 Ampere pre-paid electricity consumers over multiple years.

For the 2020/21 financial year approximately 50% of the tariff will be levied. See illustration of the impact in table 2.

Table 2: Financial illustration of phase-in of capacity charge

	2018/19		2019/20		2020/21	
	40 Ampere	60 Ampere	40 Ampere	60 Ampere	40 Ampere	60 Ampere
100% tariff	167	250	188	283	207	311
Phased-in tariff	0	0	75	100	105	150
Difference	167	250	113	183	102	161

3.7 Phase-out of conventional electricity meter installation

Saldanha bay municipality currently has 25 792 electricity meters. 74% of these are pre-paid meters. The municipality, on 1 July 2019 started to phase-out the installation of conventional meters. This relates to new installations only. Current conventional electricity consumers may however convert at their own discretion.

The municipality aims to phase out Domestic Conventional Meters by 2022/23. Further details of this and will be shared by the Electrical department in due time.

The current profile of conventional versus pre-paid is provided in the table below.

Table 3: Profile of conventional vs pre-paid electricity meters

	Commercial	Households (excluding indigent)	Indigent households	Other	Total	%
Conventional	1,391	4,676	191	535	6,793	26%
Prepaid	447	11,558	6,994	-	18,999	74%
	1,838	16,234	7,185	535	25,792	

A breakdown of the pre-paid electricity meter connection size of indigent household is provided in the table below.

Table 4: Pre-paid electricity meters connection size of indigent households

20 Ampere	2,555
30 Ampere	1,953
40 Ampere	2,057
60 Ampere	429
	<hr/>
	6,994
	<hr/>

3.8 Electricity tariffs – NERSA approval

At the date of this report, NERSA has not yet published its Municipal Tariff Guideline increase document, which is used to determine the municipal tariff increases to consumers. The municipality has in the interim estimated a rate increase of 10% to its consumers, which will then be corrected in May 2020 upon final budget approval.

NERSA must also still consider and approve the tariffs of the municipality before the commencement of the new financial year.

On 9 March 2020 NERSA did approve an average 8.76% for Eskom Standard tariffs in total. The municipal tariffs are indicated to increase with 6.9%.

On 10 March 2020, the High Court ruled against the previous NERSA decision to grant ESKOM only a 5,32% increase where Eskom applied for a 18.91% increase in 2018/19. This now place further uncertainty on tariff increases.

Both scenarios of a 10% and 6.9% increase have been illustrated in the tariff modelling calculations attached as **Annexure F**.

3.9 Operating budget

A summary of the operating budget is provided in the table below.

Table 5: Operating budget

	2019/20 Adjustment budget R	2020/21 Budget R	2021/22 Budget R	2022/23 Budget R
Revenue				
Property rates	226,719,710	241,301,122	253,366,344	265,528,056
Service Charges: Electricity	359,089,928	395,000,481	434,501,280	477,951,408
Service Charges: Water	175,730,000	145,580,392	152,759,708	159,996,140
Service Charges: Waste Water Management	75,536,928	79,762,837	83,751,216	87,771,276
Service Charges: Waste Management	72,323,356	83,172,440	95,648,616	109,995,900
Rental of facilities and equipment	14,840,524	15,447,192	16,219,776	17,030,760
Interest earned - external investments	47,609,256	52,894,528	57,153,646	61,757,548
Interest earned - outstanding debtors	13,776,312	14,465,724	15,189,516	15,918,636
Fines Penalties and Forfeits	18,864,461	18,930,253	19,876,788	20,830,872
Licences or Permits	1,413,924	1,980,936	2,080,008	2,179,836
Agency services	6,347,040	7,300,104	7,665,120	8,033,040
Transfers and Subsidies: Operational	104,814,458	122,633,549	145,898,649	140,360,396
Other revenue	20,573,912	23,871,450	25,034,922	26,207,178
	<u>1,137,639,809</u>	<u>1,202,341,008</u>	<u>1,309,145,589</u>	<u>1,393,561,046</u>
Plus: Capital grants and donations	<u>57,291,253</u>	<u>54,432,450</u>	<u>30,900,350</u>	<u>49,185,606</u>
Total Revenue	<u>1,194,931,062</u>	<u>1,256,773,458</u>	<u>1,340,045,939</u>	<u>1,442,746,652</u>
Own revenue (excluding grants)	<u>1,032,825,351</u>	<u>1,079,707,459</u>	<u>1,163,246,940</u>	<u>1,253,200,650</u>
Less: Expenditure				
Employee Related Cost	406,131,243	443,329,044	473,797,014	508,749,985
Remuneration of councillors	13,126,015	14,044,829	15,098,340	16,230,708
Bad debt written off	38,502,989	38,503,140	40,351,572	42,288,348
Debt impairment	11,934,465	11,603,783	12,160,788	12,744,516
Depreciation and Amortisation	141,215,484	140,308,440	147,048,972	154,106,916
Finance charges	22,852,465	26,956,462	32,833,209	39,987,463
Bulk purchases	335,422,038	353,414,714	385,376,192	420,371,571
Contracted services	118,169,344	124,322,059	144,532,703	133,843,788
Transfers and Subsidies	4,601,629	6,210,420	5,578,304	5,750,072
Other materials	37,545,012	35,291,468	36,332,100	38,075,784
Other expenditure	75,584,015	70,797,255	74,121,352	77,798,243
Total Expenditure	<u>1,205,084,699</u>	<u>1,264,781,614</u>	<u>1,367,230,546</u>	<u>1,449,947,394</u>
Deficit	<u>(10,153,637)</u>	<u>(8,008,156)</u>	<u>(27,184,607)</u>	<u>(7,200,742)</u>

The main contributors to the operating revenue and operating expenditure of the 2020/21 financial year are as indicated in the two graphs below.

Figure 2: Operating Revenue budget

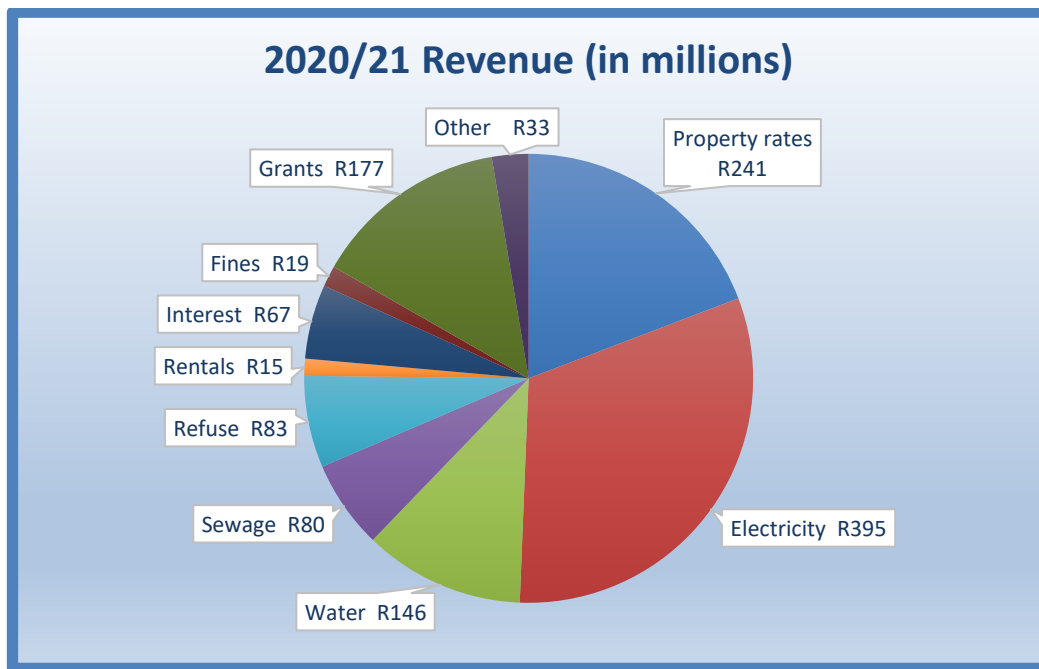
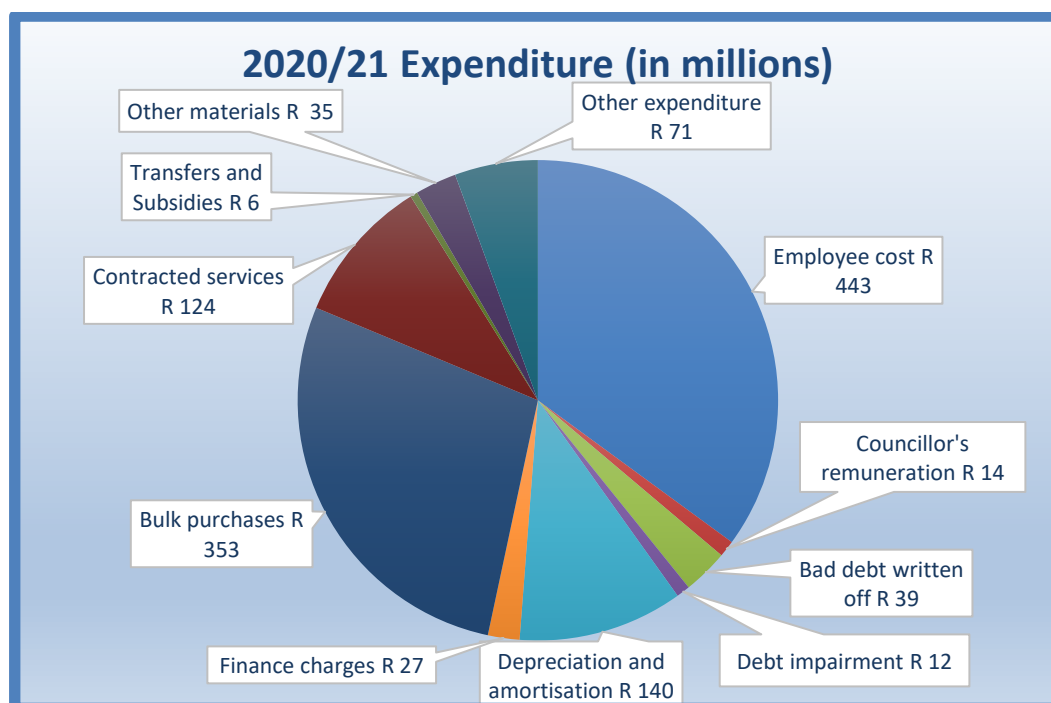


Figure 3: Operating Expenditure budget



3.10 Budgeted operating deficit

The budgeted operating deficit for the 3 year 2020/21 MTREF period is R8 million, R27 million and R7 million respectively. The municipality is budgeting for a deficit as the depreciation charge is not fully cashed-back.

3.11 Capital budget - Infrastructure projects

National Treasury has urged municipality to prioritize spending on infrastructure. The summary per category of infrastructure projects over the MTREF is listed in the table below.

Infrastructure projects comprise 78% of the total capital budget in 2020/21, 71% in 2021/22 and 74% in 2022/23.

Table 6: Infrastructure projects as % of total capital budget

	2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Infrastructure assets				
Roads Infrastructure	45,564,936	58,346,270	33,628,000	34,868,960
Storm water Infrastructure	1,321,550	7,778,225	3,127,647	3,222,948
Electrical Infrastructure	13,407,874	22,389,772	28,517,800	31,661,555
Water Supply Infrastructure	45,431,413	51,976,532	31,379,662	32,046,029
Sanitation Infrastructure	42,650,071	41,145,771	42,422,800	13,655,555
Solid Waste Infrastructure	53,741,650	21,261,991	1,600,000	2,500,000
Information and Communication Infrastructure	1,165,000	-	-	-
Total infrastructure projects	203,282,494	202,898,561	140,675,909	117,955,047
Other assets				
Community Assets	39,290,110	25,805,964	23,376,941	11,860,559
Other Assets	10,625,064	6,973,030	4,050,000	3,170,000
Intangible Assets	12,732,363	6,758,985	5,169,524	4,442,696
Computer Equipment	4,037,895	1,973,500	1,353,000	3,393,059
Furniture and Office Equipment	2,518,223	645,500	1,064,350	703,522
Machinery and Equipment	11,032,262	5,210,000	4,447,000	6,750,850
Transport Assets	17,120,000	9,782,000	14,876,639	10,886,416
Land	5,919,907	150,000	2,150,000	-
Total other assets	103,275,824	57,298,979	56,487,454	41,207,102
Total capital budget	306,558,318	260,197,540	197,163,363	159,162,149
Infrastructure projects as percentage of total capital budget	66%	78%	71%	74%

3.12 Repairs and maintenance expenditure

The budget for Repairs and maintenance for 2020/21, 2021/22 and 2022/23 is R66 million, R70 million and R73 million respectively (see table below).

The amounts reflected as repairs and maintenance only represents materials and contracted services. No labour and vehicle cost incurred by the municipality is currently allocated to repairs and maintenance due to the absence of a full costing system. The real repairs and maintenance are therefore higher than the amount reflected in the budget documents.

Table 7: Repairs and maintenance expenditure

	2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Repairs and maintenance	<u>73,497,085</u>	<u>65,971,927</u>	<u>69,550,272</u>	<u>73,032,612</u>
Movement from the previous year	<u>5%</u>	<u>-10%</u>	<u>5%</u>	<u>5%</u>
Percentage of operating expenditure	<u>6%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>

3.13 Rates and tariffs

The proposed 2020/21 rates and tariff increase percentages has been provided in the table below. For comparability the previous 4 years' increases are also provided.

Table 8: Rates and tariffs for 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Property rates	5%	6.5%	6.5%	6.2%	4.5%
Property rates - Vacant erven	5%	6.5%	6.5%	20%	10%
Electricity	7.6%	2.0%	6.8%	13.8%	10%
Water - Consumption	6%	7.0%	21%	5.8%	4.5%
Water - Basic and availability fees	6%	7.0%	80%	5.2%	4.5%
Refuse	12%	8.0%	10%	5.2%	4.5%
Sewerage	7%	8.0%	10%	15%	15%
Sundry tariffs	6%	10.0%	10%	5.2%	Various

The tariffs for 2021/22 and 2022/23 will increase with the inflation targets, except for electricity and sewage. See explanation below.

3.14 Explanation for tariff increases above 4.5%

MFMA Circular 99, attached as **Annexure G**, requires that all increases more than the inflation target of 4.5% for 2020/21 must be explained and justified.

(a) **Property rates** increase with 4.5%.

Property rates are used by the municipality to provide basic services and to perform its functions as set out in schedules 4B and 5B of the Constitution of the Republic of South Africa, 1996. This includes installing and maintaining of streets, roads, sidewalks, storm drainage, building regulations, provision of local sport facilities, parks, recreational facilities and cemeteries to name a few. The property rates on vacant erven will increase with 10% as means to encourage residential development.

(b) The explanation for the **Electricity** increase is provided in section 3.8.

(c) **Water** increase with 4.5%.

(d) **Refuse** increase with 4.5%

(e) **Sewage** increase with 15%.

An increase of 15% for 2020/21 and the two outer years is required to move towards full cost recovery to deliver the service. In comparison with other municipalities, Saldanha Bay municipality's tariff is low, hence the operating deficit.

(f) **Sundry tariffs** increase with 4.5% in general. Some of the other tariffs such as resorts and halls will have higher increases. Building plan fees will have no increase in 2020/21.

3.15 Financial support provided to indigent households

Saldanha Bay Municipality provides free basic services to poor households as a means of poverty alleviation. This support is to households who are unable to pay, or struggle to pay for their basic services.

Households with an income base below a determined threshold of R5 000, will receive a 100% subsidy. Further relief is provided to households with an income between R5 001 and R6 200, who will receive a subsidy of 70%.

These consumers should apply to be registered as an indigent household as defined in the Indigent policy of Council and will be included in the indigent register to obtain this benefit.

Indigent households will in 2020/21 receive free electricity (50 electricity units per month, plus the service charge, plus the capacity charge based on a maximum connection of 40 Ampere), water (6 kilolitres per month), free refuse removal and free sanitation based on a developed erf size of 250m².

In respect of property rates, the first R185 000 value of the residential properties of indigents are exempted.

Support is also provided to public benefit organisations by subsidising 75% of the monthly service account.

Child headed households are furthermore subsidised in the same manner as a 100% qualifying indigent household.

3.16 Financial support provided to pensioners

A special rebate on property rates is provided to pensioners based on their monthly income levels, which has been adjusted with approximately 5.2% from the previous year, which is indicated in the table below:

Table 9: Financial support provided to pensioners

<u>Monthly Income</u>	<u>Percentage rebate</u>
Between R0 - R10 000	100%
Between R10 001 - R15 000	70%
Between R15 000 - R20 000	50%
Above R20 000	0%

3.17 Conclusion

The impact of COVID-19 will be great. As always, we will get through this crisis. We are comforted in our faith. Psalm 91 and John 17:17 contain beautiful promises from God.

He who dwells in the secret place of the Most High
Shall abide under the shadow of the Almighty.
I will say of the Lord, "He is my refuge and my fortress;
My God, in Him I will trust."

Surely He shall deliver you from the snare of the fowler
And from the perilous pestilence.

His truth shall be your shield and buckler.

"Because he has set his love upon Me, therefore I will deliver him;
I will set him on high, because he has known My name.
He shall call upon Me, and I will answer him;
I will be with him in trouble;

Sanctify them by Your truth. Your Word (Jesus) is truth.

4. Section 4: Other important information

4.1 Vision, mission, strategic objectives and game changer obsessions

4.1.1 Vision

The strategic intent of Council is to enhance municipal service delivery and growth. The vision of Council is depicted in the figure below.

Figure 4: Vision of the Council



SMART is an acronym for the following aspects to give guidance to the formulation of Council's objectives:

- **S**uperior service – The rendering of service which exceed normal expectation.
- **M**andate – The effective and efficient execution of Council's mandate.
- **A**chievable – The setting of objectives which are realistically achievable.
- **R**esponsive – The setting of objectives that respond to the needs of the public.
- **T**eam – The promotion of a consolidated approach to address the challenges.

4.1.2 Mission

The mission statement below has been adopted by the Council to guide the actions of the Municipality, spell out its overall goal, provide a path, and guide decision-making. It serves to provide the framework or context within which the Council's strategies are formulated.

Saldanha Bay municipality is a caring institution that excels through:

- Accelerated economic growth for community prosperity
- Establishment of high quality and sustainable services
- Commitment to responsive and transparent governance
- The creation of a safe and healthy environment
- Long term financial sustainability

4.1.3 Strategic objectives

The Council has 10 strategic objectives to give effect to the vision and mission for the municipality and are based on the 5 game changer “obsessions” of Council. Whilst the mission statement provides direction for the municipality, the strategic objectives provide a way to measure progress toward realizing the ideals set by Council in the mission statement.

The 10 strategic objectives are:

1. To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors;
2. To facilitate an integrated transport system;
3. To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water, waste management and electricity);
4. To develop socially integrated, safe and healthy communities;
5. To maintain and expand basic infrastructure for economic development and growth;
6. To be an innovative municipality through technology, best practices and caring culture;
7. To be a transparent, responsive and sustainable decentralised administration;
8. To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet);

9. To embrace a nurturing culture amongst our team members to gain trust from the community; and
10. To ensure compliance as prescribed by relevant legislation.

4.1.4 Municipal Strategic focus areas

The Council also has 5 specific focus areas for achieving the vision and mission set out for the municipality:

1. Economic Development and Growth;
2. Customer Care;
3. Technology and Innovation;
4. Cleanliness; and
5. Youth.

These focus areas serve as the foundation and framework on which the municipality will be able to realise its vision, help to drive National and Provincial Government's agenda, expand and enhance its infrastructure, and ensure that all residents have access to the essential services they require.

4.2 Cost containment measures

The municipality has implemented a cost containment policy in July 2019. Other cost containment measures not covered by this policy was considered during the preparation of the 2020/21 budget.

4.3 Auditor General – audit outcomes

Whilst the audit outcome of a municipality is not necessary a reflection on the service delivery performance of the municipality, or its financial performance, it does have a positive effect on the sentiment of the public, creditors and bank in terms of the commitment of the municipality to clean administration.

The audit outcomes history since 2013/14 are provided below:

Table 10: Auditor-General audit outcomes

2018/19	Unqualified with no findings (clean)
2017/18	Unqualified with findings
2016/17	Unqualified with no findings (clean)
2015/16	Unqualified with no findings (clean)
2014/15	Unqualified with no findings (clean)
2013/14	Unqualified with findings

4.4 Saldanha Bay Industrial Development Zone (SBIDZ)

The Saldanha Bay Industrial Development Zone Licencing Company SOC Ltd (SBIDZ) is a Schedule 3D Provincial Government Business Enterprise that was created to promote new areas of economic growth and development to fulfil the vision of the National Development Plan.

The SBIDZ targets upstream oil, gas and marine repair, fabrication, logistics and related services. It operates as a Free Port (Customs Controlled Area), offering streamlined customs processes and bespoke facilities and services to its tenants and operators.

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The SBIDZ was designated as a Customs Controlled Area (CCA) and Free Port, in July 2019. The designation allows for duty and VAT-free entry of any foreign goods intended for re-export. This ensures ease of operations for zone users and allows them to import, store and manufacture goods (including processing, cleaning and repair) without having to be bound by various time and economic restrictions.

The SBIDZ has recently signed 3 new investment agreements worth R300m bringing the total number of signed investors to 11, with the investment value just more than R3bn.

Construction has started on the first investment project – a specialised corrosion protection facility – and building plans have been submitted for an additional two investment projects involving specialised manufacturing and fabrication, as well as partial assembly and manufacturing of components which are currently being imported into South Africa.

The SBIDZ has also started construction on the Access Complex Building – a

5ha state-of-the-art commercial office facility – that is due to be completed in April 2020.

The temporary Project Leasing Facility (PLF) is another development by the SBIDZ that already delivers value in assisting with strategic government energy projects. The 6.5ha facility, accommodates projects with a duration shorter than 24 months and assists tenants with an easy-to-access facility near the port infrastructure.

The PLF is currently assisting the Transnet National Ports Authority with temporary storage for wind blades, nacelles and tower sections in support of the national Renewable Energy IPP Programme (REIPPP). The SBIDZ expects more projects related to REIPPP, to be rolled out in 2020, along with several Oil & Gas projects linked to equipment certification and maintenance.

4.5 Long term financial plan

The Western Cape Provincial Government, in November 2017 and March 2018, appropriated grant funding for the review and compilation of a new 10-year plan from 1 July 2020 onwards.

The long term financial plan as per **Annexure O** will be workshopped with Council before it will be submitted in May 2020 for approval.

5. Section 5: Annual budget tables

The following budget tables have been completed and are attached as **Annexure A**:

- Table A1 – Budget Summary;
- Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard classification);
- Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- Table A4 – Budgeted Financial Performance (Revenue by Source and Expenditure by type);
- Table A5 – Budgeted Capital Expenditure by Vote, standard classification and funding;
- Table A6 – Budgeted Financial Position;
- Table A7 – Budgeted Cash Flows;
- Table A8 – Cash Backed reserves / accumulated surplus reconciliation;

- Table A9 – Asset Management; and
- Table A10 - Basic service delivery measurement.

The supporting schedules SA1 to SA 38 are also included as part of **Annexure A**.

PART 2: SUPPORTING DOCUMENTATION

6. Section 6: Overview of annual budget process

The overview of the 2020/21 Budget and IDP process is provided in the table below.

Table 11: Overview of annual budget process

Budget and IDP timetable approved by Council	22 August 2019
IDP public participation process	05 - 15 August 2019
Budget steering committee meetings	26 September 2019
	21 November 2019
	04 February 2020
	18 February 2020
Departments budget input	19 August 2019 – February 2020
Table Budget and IDP to Council	31 March 2020
Advertise budget in the local newspaper	02 April 2020
Public participation meetings	To be confirmed
Closing of comments and representations on the IDP and tabled budget	24 April 2020
Workshop with Council on budget related policies and inputs received from the public	30 April 2020
LGMTEC engagement with Provincial Treasury	04 May 2020
Consideration of final budget approval by Council	28 May 2020

7. Section 7: Overview of the alignment of the annual budget with the IDP

The IDP serves as a guideline to the municipality for the correct budget and resource allocations in ensuring that it meets the needs of its residents. It is also an integrated inter-governmental system of planning which requires the involvement of all three spheres of government. Contributions are made by provincial and national government to assist municipal planning and therefore government has created a range of policies and strategies to support and guide development and to ensure alignment between all spheres of government as stated by the section 24 of the Municipal Systems Act, No 32 of 2000.

The IDP drives the strategic development of SBM. The Municipality's budget is influenced by the municipal strategic focus areas and strategic objectives

identified in the IDP. The Service Delivery Budget Implementation Plan (SDBIP) ensures that the Municipality implements programmes and projects based on the IDP targets and associated budgets.

The budget has been compiled in accordance with the municipality's IDP document. Also refer to tables SA3, SA4 and SA5 which is aligned with the strategic objectives and goals of the municipality.

8. Section 8: Measureable performance objectives and indicators

This budget is indicative of our commitment to achieving the objectives of local government set out in the Constitution of the Republic of South Africa and to do so in an efficient, effective and sustainable manner. These commitments are entrenched in our mission, vision and value statements and as such are reflected so in our budget and services delivery processes.

The MTREF has been compiled in such a manner to ensure sustainable service delivery and to invest in infrastructure that will ensure growth over the medium term to long term.

The measureable performance objectives are indicators included in the budget tables SA4 and SA7.

9. Section 9: Overview of budget related policies

The proposed amendments to the budget related policies are attached as **Annexure I**.

10. Section 10: Overview of budget assumptions

The following assumptions were used in the preparation of the budget:

Table 12: Operating Revenue assumptions

The average estimated CPIX that were used to determine the tariff increases was 4.5% for	
1.	2020/21, 4.6% for 2021/22 and 4.6% for 2022/23 as guided by MFMA Circular 99. Refer to section 3.13 for more information about the tariff increases.
2.	Rates and tariffs are cost reflective in compiling a funded budget.
3.	Indigent free basic services are financed from the Equitable share. Refer to section 3.15 for more information about the indigent subsidies.
4.	A debtors payment rate of 96%.
5.	National grants was budgeted in accordance with Division of Revenue Bill and gazetted allocations.
6.	Provincial grants was budgeted in accordance with the Provincial Gazette.
7.	The EPWP grant was based on the DORA allocation of R 2.87 million for 2020/21.
8.	The water revenue decrease substantially due to closing of Saldanha Steel.
9.	Electricity tariffs budgeted to increase 10% annually over the MTREF. For 2020/21 it is subject to still change. Refer to section 3.8 for more information.

Table 13: Operating Expenditure assumptions

The general CPIX rates that was used for the operating expenses for 2020/21 is 4.9%, for	
1.	2021/22 is 4.9%, and for 2022/23 is 4.9%. All expenditure types however do not increase with the same percentage points.
A 3-year Salary and Wage Collective Agreement was implemented from 1 July 2018. In terms of the tri-party collective agreement reached at the South African Local Government Bargaining Council, employment costs for 2020/2021 is based on an estimated CPIX of 5.1% (minimum 5% in terms of collective agreement) plus 1.25% (that is 6.35%), plus the normal notch increases of approximately 1.15%, totalling an 7.5% budgeted increase. The two outer years was budgeted at 7%.	
2.	
Five new funded positions were provided in the salary budget. Ten of the temporary cleaners	
3.	positions will be made permanent from 1 July 2020. The total estimated additional cost is R3.3 million.
4.	Departments were required to budget in terms of general cost containment measures.
5.	An increase of 5.4% was provided for the bulk water purchases tariff, but less bulk purchases budgeted in total due to closing of Saldanha Steel.
6.	An increase of 10% was provided for the bulk electricity purchases annually over the MTREF. NERSA still to determine the increase for 2020/21.
Due to cost containment measures and to absorb the loss in revenue with the closing of	
7.	Saldanha Steel the items other materials, contracted services and other expenditure in general reduced that also result in reduction of repairs and maintenance in 2020/21.

Table 14: Capital budget assumptions

1.	Cash-backed depreciation (growth contributor for CRR) of 2020/21 R50 million, 2021/22 R56 million and 2022/23 R59 million is budgeted.
2.	Additional transfer from accumulated surplus to the CRR of 2020/21 R 45 million, 2021/22 R45 million and 2022/23 R23 million is budgeted of which R30 million per year will be transferred to new municipal building reserve, provided that the cash surplus realises.
3.	Annual development charges (growth contributor for CRR) of R 11 million 2020/21, R12 million 2021/22 and R13 million for 2022/23 is budgeted.
4.	Repayment of surplus on water service from WCDM as growth contributor to CRR of R12 million 2020/21 and R10 million for the two outer years is budgeted.
5.	Capital budget funding source from CRR is limited to R 283 million over 3 year MTREF.
6.	External loans of R191.2 million to partially fund the 2020/23 year MTREF capital budgets.
7.	R7.5 million provided for ward based specific capital projects for 2020/21.
8.	A 10 year capital budget was prepared and is included in the agenda. Council only to approve the 3 year MTREF budget: Capital budget over the 3 year 2020/21 MTREF period is R617 million. Capital budget for the 7 year 2023/24 - 2029/30 period is R1 206 million.

11. Section 11: Overview of budget funding

The budget must be funded from actual revenue to be collected during the financial year and must be cost reflective. The Operating budget is funded from Revenue as indicated in the relevant A schedules attached.

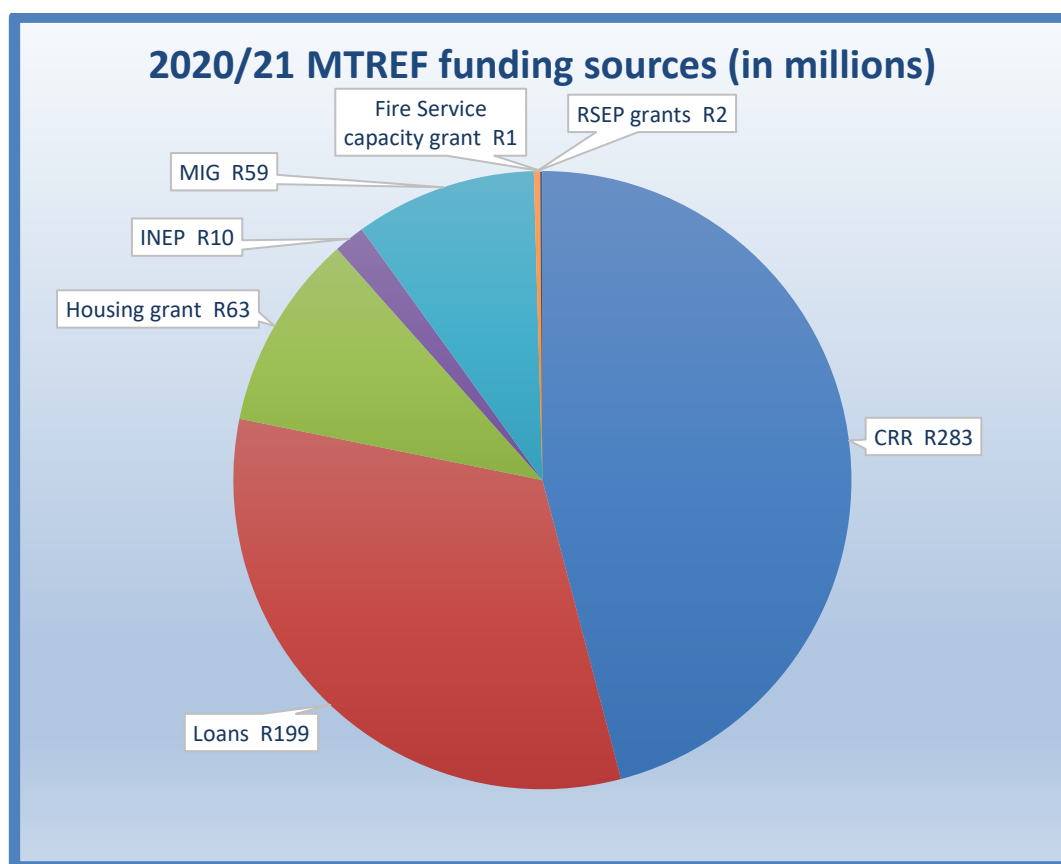
The 3 year MTREF capital budget is R617 million. The capital budget is funded from various sources of which the Capital Replacement Reserve is the biggest contributor.

A summary of the capital budget funding sources is provided in the table and graph below:

Table 15: Funding sources of the capital budget

Funding source	2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Capital Replacement Reserve	213,918,833	134,464,032	86,028,013	62,526,543
Rolled-over loan funds	-	7,776,058	-	-
External borrowings	35,848,233	63,525,000	80,235,000	47,450,000
Regional Housing Board	12,641,657	29,355,000	8,280,000	25,633,306
Integrated National Electricity Programme	1,000,000	5,000,000	2,000,000	3,000,000
Municipal Infrastructure Grant	28,466,254	18,345,450	19,620,350	20,552,300
Regional Socio-Economic Project Grant	6,000,000	1,000,000	1,000,000	-
Sport and Recreation	250,000	-	-	-
Fire Service capacity grant	-	732,000	-	-
Vredenburg Urban Revitalisation Grant	5,257,000	-	-	-
Municipal Drought Relief Grant	1,538,453	-	-	-
Donations (Transnet and Afrisam)	1,637,888	-	-	-
Total	306,558,318	260,197,540	197,163,363	159,162,149

Figure 5: Funding sources of the capital budget



11.1 Capital Replacement Reserve (CRR)

The municipality has set aside cash to replace assets or to acquire new assets. Since the implementation of General Recognised Accounting Practices (GRAP), and the subsequent implementation of depreciation charges in local government the capital replacement reserve's contributions is part of the depreciation charges. With the unbundling of infrastructure assets when GRAP was initially implemented the value of Property Plant and Equipment increased substantially. The status of the CRR is provided in the table below.

Table 16: Capital Replacement Reserve

	2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Opening balance on 1 July	194,631,465	57,372,078	5,929,960	1,573,636
Plus: Contributions				
Cash backed depreciation	47,533,244	55,380,000	55,736,000	58,458,000
Additional transfer from accumulated surplus	41,991,111	44,110,000	44,500,000	22,700,000
Capital contributions	7,475,644	11,347,872	12,028,744	12,750,469
West Coast District Municipality (repayment of surplus)	18,748,297	12,000,000	10,000,000	10,000,000
Transfer to employee benefits obligation	- 9,088,850	- 9,815,958	- 10,593,055	- 11,423,321
Transfer to new building reserve	- 30,000,000	- 30,000,000	- 30,000,000	- 30,000,000
Less: Capital Spending	- 213,918,833	- 134,464,032	- 86,028,013	- 62,526,544
Closing balance on 30 June	57,372,078	5,929,960	1,573,636	1,532,240

The capital replacement reserve was always maintained in a responsible manner allowing the municipality to acquire assets through this internal funding source and without too much reliance on external borrowings and grants. When the capital budget was not spent in its entirety for a year, the funds were carried forward to complete the projects.

As a result of the high demand for services, the capital replacement reserve is being depleted over the 3 year MTREF period. It is estimated that the CRR's balance will be only **R1.5 million** at the end of 2022/23.

A history of the capital budget expenditure has been provided below as well as the budgeted estimates up to 2022/23. It is estimated that at the end of this 14-year period the municipality would have invested over R2.4 billion into capital projects.

Table 17: History of the capital budget versus actual expenditure

Year	Actual/ Estimate	Capital Budget	Capital Expenditure	%
2009/10	Actual	160,673,000	62,662,470	39%
2010/11	Actual	183,265,000	109,959,000	60%
2011/12	Actual	133,213,000	101,241,880	76%
2012/13	Actual	196,544,000	139,546,240	71%
2013/14	Actual	208,661,530	145,156,473	70%
2014/15	Actual	236,336,670	225,459,000	95%
2015/16	Actual	215,809,476	145,951,261	68%
2016/17	Actual	232,280,911	200,678,559	86%
2017/18	Actual	319,470,526	238,420,533	75%
2018/19	Actual	302,125,856	237,399,184	79%
2019/20	Estimate	306,558,318	275,902,486	90%
2020/21	Estimate	260,197,540	234,177,786	90%
2021/22	Estimate	197,163,363	177,447,027	90%
2022/23	Estimate	159,162,149	143,245,934	90%
		<u>3,111,461,339</u>	<u>2,437,247,833</u>	78%

11.2 Housing Development Fund

The housing development fund is administered in terms of the Housing Act, Act 107 of 1997. This funding source is insignificant in its contribution to the capital budget.

11.3 External loans

Provision is made over the 3 year 2020/21 MTREF period for new loans of R191 million. The table below provides for a reconciliation of new and historic loans. The list of the projects funded from external loans is attached as **Annexure M**.

Table 18: Summary external loans

Year	Actual/ Budget	Own revenue	Opening balance	Redemption	New and proposed new loans	Closing balance	Loan as % of Own Revenue
2013/14	Actual	620,326,400	65,785,639	- 12,189,934	-	53,595,705	9%
2014/15	Actual	668,648,315	53,595,705	- 11,046,527	-	42,549,178	6%
2015/16	Actual	800,983,969	42,549,178	- 7,431,794	91,293,682	126,411,066	16%
2016/17	Actual	889,072,903	126,411,066	- 22,627,124	58,180,000	161,963,942	18%
2017/18	Actual	964,938,493	161,963,942	- 19,046,042	17,822,852	160,740,752	17%
2018/19	Actual	959,772,014	160,740,752	- 17,008,526	-	143,732,226	15%
2019/20	Budget	1,032,825,351	143,732,226	- 18,761,705	39,179,996	164,150,517	16%
2020/21	Budget	1,079,707,459	164,150,517	- 14,511,513	63,525,000	213,164,003	20%
2021/22	Budget	1,163,246,940	213,164,003	- 15,967,057	80,235,000	277,431,947	24%
2022/23	Budget	1,253,200,650	277,431,947	- 21,427,619	47,450,000	303,454,328	24%
					397,686,530		

Total: 2020/21- 2022/23 = R191.2 million

12. Section 12: Expenditure on allocations and grant programmes

The total grants to be received for 2020/21 comprises R 177 million, and for the two outer years are R 177 million and R 190 million respectively. The split between the various grants are listed below.

Table 19: Grants allocations

		2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
National DORA grants					
Finance Management Grant	Operating	1,550,000	1,550,000	1,550,000	1,550,000
Municipal Infrastructure Grant	Capital	28,466,253	18,345,450	19,620,350	20,552,300
Municipal Infrastructure Grant	Operating	970,750	965,550	1,032,650	1,081,700
Integrated Electrification Programme	Capital	1,000,000	5,000,000	2,000,000	3,000,000
Expanded Public Works Programme	Operating	2,502,000	2,870,000	-	-
Equitable Share	Operating	88,277,000	96,832,000	106,683,000	116,809,000
Total National DORA grants		122,766,003	125,563,000	130,886,000	142,993,000
Provincial grants					
Housing and Human Settlement	Operating	-	12,048,000	28,240,000	11,926,694
Housing and Human Settlement	Capital	12,641,657	29,355,000	8,280,000	25,633,306
Cultural affairs: Library service	Operating	7,488,000	7,757,000	8,183,000	8,633,000
Community Development Worker Grant	Operating	148,000	75,000	75,000	75,000
WOSA Grant	Operating	1,272,000	-	-	-
Regional Socio-Economic Project	Capital	6,000,000	1,000,000	1,000,000	-
Thusong Centre	Operating	-	-	-	150,000
Proclaimed Main Roads Grant	Operating	143,200	135,000	135,000	135,000
Sports and Recreation	Capital	250,000	-	-	-
Vredenburg Urban Revitalisation grant	Capital	5,257,000	-	-	-
Municipal Drought Relief Grant	Capital	1,538,451	-	-	-
Fire Service capacity grant	Capital	-	732,000	-	-
WC Financial Management Support Grant	Operating	746,154	-	-	-
WC Financial Management Capacity Building gran	Operating	687,337	401,000	-	-
Total Provincial grants		36,171,799	51,503,000	45,913,000	46,553,000
Other grants and donations					
Private Enterprises JOJO	Capital	64,440	-	-	-
Donations Afrisam	Capital	500,000	-	-	-
IDZ	Operating	500,000	-	-	-
Donation:Transnet	Capital	1,573,452	-	-	-
SETA Grants	Operating	530,000	-	-	-
Total other grants and donations		3,167,892	-	-	-
TOTAL GRANTS		162,105,694	177,066,000	176,799,000	189,546,000
Split between:					
- Operating grants		104,814,441	122,633,550	145,898,650	140,360,394
- Capital grants		57,291,253	54,432,450	30,900,350	49,185,606
TOTAL GRANTS		162,105,694	177,066,000	176,799,000	189,546,000

13. Section 13: Transfers and grants made by the municipality

The total transfers and grants amount to R6.2 million in 2020/21, and R5.6 million and R5.8 million over the two outer years. See SA21 for a listing of these transfers and grants.

14. Section 14: Councillor allowances and employee benefits

This is contained in supporting schedule table SA22 and SA23. A summary of the employee related cost, excluding councillors' salaries and allowances has been provided in the table below.

Table 20: Employee cost percentages

Year	Salary cost	Total operating expenditure	% of total operating expenditure	% of total operating expenditure (excluding bulk purchases)
Actual				
2015/16	261,689,492	833,685,970	31%	46%
2016/17	279,267,719	887,066,566	31%	45%
2017/18	316,024,070	967,177,730	33%	44%
2018/19	340,385,622	1,043,977,006	33%	44%
Budget				
2019/20	406,131,243	1,205,084,699	34%	47%
2020/21	443,329,044	1,264,781,614	35%	49%
2021/22	473,797,014	1,367,230,546	35%	48%
2022/23	508,749,985	1,449,947,394	35%	49%

15. Section 15: Monthly targets for revenue expenditure and cash flows

This is contained in supporting schedule table SA25 and SA30

16. Section 16: Annual budgets and SDBIP

The final service delivery and budget implementation plans (SDBIP) will be dealt with after the budget is finally approved to be submitted to the Mayor within 14 days after the approval of the budget and approved by the Mayor within 28 days after the approval of the budget. The draft Top Layer SDBIP is included as **Annexure L**.

17. Section 17: Contracts having future budgetary implications

It is required to disclose in the budget documentation any contracts that will impose financial obligations on the municipality beyond the three years covered by the 2020/21 MTREF. The detail of this is included in supporting tables SA32 and SA33.

18. Section 18: Capital expenditure details

Detailed capital budget information is included in **Annexure A, B, C and D**. More detail on the Capital Budget is also contained in Supporting tables SA34a; SA34b, SA34c; SA35; SA36.

The summary of the capital budgets per Main Vote and per Town is listed in the tables and figures below.

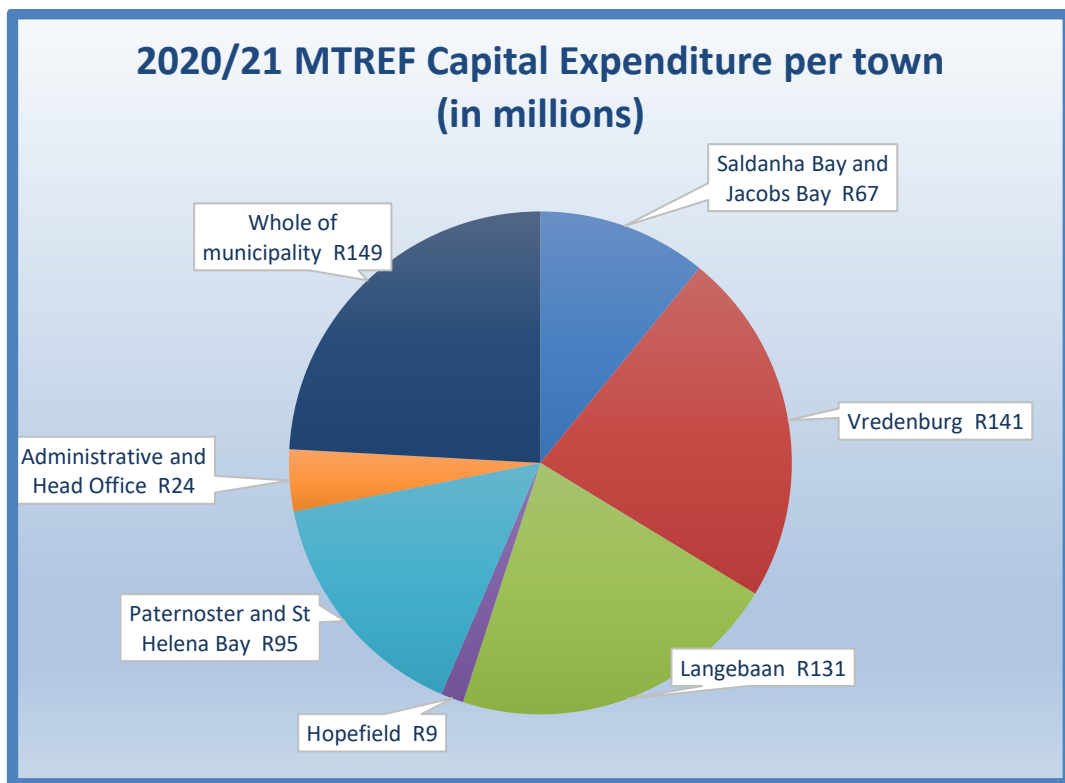
Table 21: Capital budget per vote

	2019/20 Adjustment budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
Finance	1,362,930	818,000	1,509,650	1,612,000
Community & Operational Services	23,157,074	17,560,000	11,810,000	10,350,000
Engineering & Planning Services	247,652,572	219,676,328	169,313,989	133,832,872
Corporate & Protection Services	16,492,329	10,666,228	5,717,500	3,996,550
Office of the Municipal Manager	-	624,500	18,500	12,500
Council	80,000	-	-	-
Economic Development and Strategic Services	17,813,413	10,852,485	8,793,724	9,358,227
TOTAL	306,558,318	260,197,540	197,163,363	159,162,149

Table 22: Capital budget per town

Saldanha Bay and Jacobs Bay	37,396,572	23,443,640	25,991,847	17,664,598
Vredenburg	48,358,450	48,717,969	51,379,941	40,602,401
Langebaan	55,536,048	76,215,101	35,565,000	19,394,866
Hopefield	4,639,296	3,960,000	2,385,000	2,661,880
Paternoster and St Helena Bay	44,167,429	33,564,629	32,096,062	29,601,861
Administrative and Head Office	12,051,505	8,091,940	7,761,874	8,623,067
Whole of municipality	104,409,018	66,204,262	41,983,639	40,613,476
	306,558,318	260,197,540	197,163,363	159,162,149

Figure 6: Capital budget per ward for the 3 year MTREF



19. Section 19: Legislation compliance status

All relevant legislations and regulations have been implemented. The applicable legislation and circulars considered were:


- Sections 15 – 33 of the MFMA;
- MFMA circulars 10, 12, 13, 14, 19, 28, 31, 45, 48, 51, 54, 58, 59, 64, 66, 67, 70, 72, 74, 75, 78, 79, 82, 85, 86, 89, 91, 93 and 94, 98 and 99.
- Municipal Budget and Reporting Regulations, 2009.
- Municipal Regulations on Standard Chart of Accounts as per gazette notice no. 37577, 22 April 2014.

The most recent MFMA Budget Circular no 99 is included in the budget documentation as **Annexure G**.

19.1 Service Level Standards

In terms of MFMA circulars 72, 75, 78 and 79 the municipality must adopt service standards as it provides transparency in understanding performance indicators. Local government is mostly service delivery orientated and as such need to be clear on what the public can expect from the municipality as a service delivery standard.

The service delivery standards set are attached as **Annexure J** and must to be approved by council.



MS M CORNETT
MANAGER: BUDGETING

20.08.2020
DATE




MR S ROETS
SENIOR MANAGER: FINANCIAL MANAGEMENT

20/3/2020
DATE



MR S VORSTER
CHIEF FINANCIAL OFFICER

20/03/2020
DATE



COUNCILLOR S MOHALE
PORTFOLIO COUNCILLOR: FINANCE

20/03/2020
DATE